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RATIO ANALYSIS PRACTICES IN THE U.S. LODGING INDUSTRY

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ABSTRACT

Textbooks on managerial accounting and financial management list and explain various ratios to help financial managers monitor their operating performance and evaluate their success in meeting and exceeding various financial goals. These ratios have been classified into five categories based on their purpose. Schmidgall lists the various categories of ratios:

1. Liquidity ratios: Reveal the ability of the company to meet short-term obligations.
2. Solvency ratios: Measure the ability of the company to meet long-term financial obligations.
3. Activity ratios: Reflect management's efficiency in using the company's assets.
4. Profitability ratios: Show management's return on sales and investments.
5. Operating ratios: Measure management's efficiency with regard to the company's operation.

While definitions and explanations of these ratios are clear and well documented in the hospitality literature, the extent and nature of their use by hotel financial executives has not been investigated recently. Schmidgall conducted a study on financial ratios used in the lodging industry in 1988. However, the lodging industry has changed considerably since then. Some of these changes include an increase in public ownership of hotels, an increase in the variety of ownership structures (such as REITs), and growth in the consolidation and internationalization of the industry. Because of these changes, a new study that investigates the financial management practices of lodging executives is warranted.

The overall scope of the research was to investigate the ratio analysis practices of lodging executives in the United States and Europe. First, we plan to present the results of this research separately for the United States and Europe; later, we will present a comparison of ratio analysis practices in the United States and Europe. The comparison will also include differences in practices based on operating and ownership structure. Finally, we intend to conduct a longitudinal analysis comparing ratio analysis practices of U.S. lodging executives today with the practices reported in Schmidgall's 1988 study.

We have received and analyzed the results of the questionnaires mailed in the United States. These were mailed to 500 lodging financial executives in the USA. These results will be presented at the AHFME conference in New York City on November 11th. The research in Europe is being conducted jointly with the European Hotel Managers

Association (EHMA) and Institut de Management Hotelier International (IMHI). The questionnaire (similar to its U.S. counterpart) has been mailed to the EHMA membership. Some preliminary results of the European survey will be presented at the conference.

The objectives of our research were to identify the most important ratios used by lodging financial executives, the frequency of their use, and the standards used to evaluate the performance of ratios.